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SCOTT J. SOARES
Acting Commissioner

Dairy Farm Revitalization Task Force

Approved Meeting Minutes

August 10, 2007

Fuller Conference Center

Old Sturbridge Village

Sturbridge, MA

Task Force Members Present:

Ms. Lynne Bohan, processor representative;
Representative Daniel Bosley, House of Representatives;
Mr. Jay Kuhlow, Senator Stephen Brewer, Senator's designee;
Mr. Mark Duffy, farmer representative;
Representative Lewis Evangelidis, House of Representatives;
Ms. Ellen Fitzgibbons, Department of Public Health designee;
Dr. William Gillmeister, appointee, Department of Agricultural Resources;
Undersecretary Philip Griffiths, EEA Secretary's designee;
Mr. Peter Miller, Senator Michael Knapik, Senator's designee;
Senator Stanley Rosenberg, Senate;
Mr. David Shepard, Massachusetts Cooperative of Milk Producers Federation representative;
Mr. Scott Soares, Acting Commissioner Department of Agricultural Resources;
Mr. Greg Watson, appointee, Energy and Environmental Affairs;
Mr. Richard Woodger, Massachusetts Association of Dairy Farmers representative.

Public: Members of the public were present at the meeting

1. Call to Order:

Acting Commissioner Scott Soares called the meeting into order at 9:41 AM. He asked task force members to introduce themselves.

2. Approval of July 27, 2007 Meeting Minutes:

Motion: Dr. William Gillmeister made a motion to approve the minutes. Representative Bosley seconded the motion.

Discussion: Various members noted minor typographical and grammatical corrections. Mr. Shepard noted that his and Mr. Woodger's affiliation had been reversed.

Vote: Unanimous with changes.

3. Old Business:

a. Review of Framework for Evaluations

Acting Commissioner Scott Soares began by pointing out the paper with the Summary of July 27, 2007 Task Force Meeting Regarding Future Actions and asked that the members consider the table at the bottom of the page. It listed several items on which the Task Force should focus, including having bi-weekly meetings and setting the last two meetings aside for considering drafts of a report. Acting Commissioner Soares noted that today's meeting is on cost of production. Task Force members also discussed various other topics including federal milk marketing orders and funds generated from the milk promotion checkoff program. The Task Force believed that contacting Gary Wheelock from the New England Dairy Promotion Board may be appropriate as well as Eric Rasmussen, the Market Administrator for the Northeast Federal Milk Marketing Order to discuss how the Federal milk marketing order works. The members agreed that inviting Mr. Rasmussen or someone from his staff would be appropriate in case the Task Force had some questions regarding federal marketing orders, but that a full description of the federal marketing orders would not likely be fruitful. Members also suggested contacting other states through the Council of State Governments or other departments of agriculture to see what other states are doing.

Motion: Dr. Gillmeister moved which Representative Bosley seconded that the Task Force proceeds as outlined by the Summary of July 27, 2007.

Discussion: None

Vote: Unanimous

i. Presentation on Milk Costs of Production

(1) Daniel Lass

Acting Commissioner Soares stated that today's meeting would focus on cost of production, which is one of the primary factors that have brought the industry to its

weakened state. He then proceeded to introduce Dr. Daniel Lass from the University of Massachusetts, who holds a Ph.D. from Pennsylvania State University and whose research focuses on farm-family decisions, from production to off-farm employment. Dr. Lass has also analyzed the impacts of the Northeast Dairy Compact on retail milk prices and the costs of production for fluid milk in the northeast.

Dr. Lass began by noting that no reliable data on Massachusetts costs of milk production exist and explained his methods for using data from the Agricultural Resource Management Survey of the U.S. Department of Agriculture's (USDA) Economic Research Service (ERS). He proceeded to summarize and compare total costs of production and the major components of those costs across various states in the U.S. For example the state of Maine has a cost of production of \$32.94 per hundredweight of milk (cwt) compared to \$14.34 per cwt in California. He also reported other states such as Wisconsin at \$21.01 per cwt and Pennsylvania at \$24.71 per cwt.

Of the major components of cost, Dr. Lass noted that feed, both purchased and home grown, labor, both paid and unpaid, and capital recovery costs made up over 80% of the costs of producing milk. For Maine feed costs amounted to approximately \$11.67 per cwt while California's feed costs amounted to \$8.68 per cwt. Dr. Lass noted that an estimate of the unpaid labor a farm family provides amounted to approximately \$6.22 per cwt for Maine, \$3.20 for Vermont and \$0.40 for California.

Using the USDA, ERS data, Dr. Lass' best guess for Massachusetts costs was \$26.76 per cwt. He noted that this estimate is based on past work that he had done that showed that the costs of production in MA were not statistically different from those of Vermont.

(2) Timothy J. Dalton

Acting Commissioner Soares introduced the next speaker, Dr. Timothy Dalton from the University of Maine, who holds a Ph.D. in Agricultural Economics from the University of Illinois at Champaign-Urbana. Dr. Dalton conducts research on dairy production and processing in the state of Maine.

Dr. Dalton prefaced his prepared presentation by commenting on the USDA, ERS data shown by Dr. Lass. While he noted that Dr. Lass' presentation was well done, his research leads him to conclude that the USDA, ERS data overestimates costs of production considerably and are more reflective of small Maine dairy farms. When he developed costs of production for different farm sizes, he found that the Maine costs came down more in line with Vermont at the \$24 per cwt level rather than the \$33 per cwt from the USDA numbers, concluding that his costs of production likely reflect Massachusetts costs of production as well.

In his prepared presentation, Dr. Dalton described the methods and frequency of estimating Maine milk production costs, which occurs every three years. He then provided the Task Force with Maine dairy farm characteristics such as farm size, total milk production per farm, average age of farm owner, number of laborers, off-farm income, etc. It was noted that Massachusetts dairy farms exhibited similar characteristics as those presented for Maine. However, the average herd size in Maine is slightly larger.

In his estimates he noted similarities in components of costs between Maine's and USDA, ERS components and provided a detailed description of the components in the Maine study. He also described how the Maine survey broke down farms into small, medium-size and large farms. The results compared the total annual costs across farm size in small farms showing a cost of production of \$26.93 per cwt, \$21.68 per cwt for medium farms and \$20.81 per cwt for large farms. Wrapping up his farm size comparisons, Dr. Dalton noted that when the cost components were split into every day costs of doing business (called short-run costs of production) farms could meet their costs and then some. But when capital replacement and longer-run items were added into the costs, dairy farms, regardless of size lost money.

As Dr. Lass had done, Dr. Dalton compared the average cost of production in Maine of \$23.40 per cwt with the average northern crescent farm of \$21.76 per cwt, and it shows that there are more cows per farm in Maine and that the cost per cwt is \$1.64 higher in Maine than in the northern crescent. This higher cost is due to higher repair costs, property taxes and higher fuel and utility costs.

Dr. Dalton concluded by presenting a cost of production study performed by a joint effort between the University of Maine, the University of Vermont, and USDA on cost of organic milk production in 2004 and 2005. This study only included cash costs or short-run costs, but not long-run costs. He noted that the costs had increased in 2005 from \$21.55 per cwt over 2004 of \$19.05 per cwt. The bottom line, however, is that even though organic milk commands a higher price, the costs of production, when ownership withdrawals are made, are higher and lead to net farm losses of approximately \$2.30 per cwt.

(3) Robert Smith

Acting Commissioner Soares introduced the final speaker, Mr. Robert Smith from First Pioneer Farm Credit. Mr. Smith is the Vice President for Public Affairs and Knowledge Exchange.

In his brief presentation Mr. Smith presented materials detailing that mid-size farms have been hit the hardest in the past decade because they do not have the high production level while they are full-time farmers and their sole income comes from the farm. He also stated that large farms have lost a lot of money, because cost cutting is limited. He recommended in his testimony that reducing the cost of production will be difficult, because it is mostly determined on a farm-to-farm basis and that the public should pay for programs that are beneficial to the public such as dairy farms. In his closing remarks, he stressed that it is critical that we maintain our dairy farmers, regardless of size, because the dairy industry is at the heart of the infrastructure.

b. Panel Discussion and Recommendations:

Dr. Lass, Dr. Dalton, and Mr. Smith were asked to comment on or make recommendations for policy options that the Task Force may consider to alleviate farm financial stress due to costs of production. All three noted the public benefit associated with dairy farms. Dr. Lass recommended future support with as administratively simple a method as possible. Set a support price possibly based on cost of production and provide

a direct payment based on that. He did suggest incorporating incentives to increase production efficiency, but aside from that, the method of support should be as simple and straight forward as possible.

Dr. Dalton expressed no issue with convoluted solutions. He did provide anecdotal information of various innovations being attempted by farmers. One such innovation was alternative feed rations, but further research is required. He noted that a group of farmers were attempting to purchase feeds cooperatively but had no information on the success of that venture. Finally, he noted further research on technological advances in feed rations and organic farming.

Mr. Smith reiterated the public benefits of dairy farming and that as such, the public ought to be willing to bear some of the costs. For example, cost sharing for manure management facilities that enhance the environmental stewardship of dairy farms. He further suggested that property tax reform for agricultural operations would be very helpful, particularly in the assessment of buildings. He mentioned dairy farm access to economic development programs ought to be assessed as he recounted programs in New York State that because of the rules of the programs farms could not take advantage of them. After a change in the rules through the legislative process, the agricultural sector became one of the largest participants in those programs. He finally noted that farms of all sizes were important, to which Mr. Woodger agreed, noting that he operates a large farm by Massachusetts standards and smaller farms rely on his farm for some of their feed inputs.

5. Public Comment

Acting Commissioner Soares took Public Comment out of order, with no objection, because the meeting was running long and wanted to give members of the public an opportunity to comment.

Mr. Nate L'Etoile from the Massachusetts Farm Bureau Federation commented that 61A law just went through a significant revision and noted that further revisions may be necessary. In particular, farms in Worcester County are paying the same property taxes on their homes, even if they can't afford to live in their big farmhouses. It is fair that a farmer should pay residency taxes but he/she should not be required to live at the farm to get a property tax break.

Doug Dimento from Agri-Mark noted that his company looked at California cost of production in 2006 and that the average farm had 1000 cows, thus making comparisons irrelevant because of such different sized farms.

4. New Business:

Acting Commissioner Soares noted that the task force has been invited to Allan's Dairy Farm in Sheffield by the Northeast Organic Dairy Producers Alliance on August 17th and 18th.

6. Adjourn

Motion: Dr. Gillmeister motioned to adjourn the meeting. The motion was second by Greg Watson.

Vote: Unanimous.

The Meeting adjourned at 12:29 P.M.